

[Code of Federal Regulations]
[Title 30, Volume 2]
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[CITE: 30CFR206.54]

[Page 39]

TITLE 30--MINERAL RESOURCES

CHAPTER II--MINERALS MANAGEMENT SERVICE,
DEPARTMENT OF THE INTERIOR

PART 206--PRODUCT VALUATION--Table of Contents

Subpart B--Indian Oil

Sec. 206.54 Transportation allowances--general.

(a) Where the value of oil has been determined under Section 206.52 of this subpart at a point (e.g., sales point or point of value determination) off the lease, MMS shall allow a deduction for the reasonable, actual costs incurred by the lessee to transport oil to a point off the lease; provided, however, that no transportation allowance will be granted for transporting oil taken as Royalty-In-Kind (RIK); or

(b)(1) Except as provided in paragraph (b)(2) of this section, the transportation allowance deduction on the basis of a selling arrangement shall not exceed 50 percent of the value of the oil at the point of sale as determined under Sec. 206.52 of this subpart. Transportation costs cannot be transferred between selling arrangements or to other products.

(2) Upon request of a lessee, MMS may approve a transportation allowance deduction in excess of the limitation prescribed by paragraph (b)(1) of this section. The lessee must demonstrate that the transportation costs incurred in excess of the limitation prescribed in paragraph (b)(1) of this section were reasonable, actual, and necessary. An application for exception (using Form MMS-4393, Request to Exceed Regulatory Allowance Limitation) shall contain all relevant and supporting documentation necessary for MMS to make a determination. Under no circumstances shall the value, for royalty purposes, under any selling arrangement, be reduced to zero.

(c) Transportation costs must be allocated among all products produced and transported as provided in Sec. 206.55. Transportation allowances for oil shall be expressed as dollars per barrel.

(d) If, after a review and/or audit, MMS determines that a lessee has improperly determined a transportation allowance authorized by this subpart, then the lessee shall pay any additional royalties, plus interest determined in accordance with 30 CFR 218.54, or shall be entitled to a credit, without interest.

[Code of Federal Regulations]
[Title 30, Volume 2]
[Revised as of July 1, 2001]
From the U.S. Government Printing Office via GPO Access
[CITE: 30CFR206.109]

[Page 52-53]

TITLE 30--MINERAL RESOURCES

CHAPTER II--MINERALS MANAGEMENT SERVICE, DEPARTMENT OF THE INTERIOR

PART 206--PRODUCT VALUATION--Table of Contents

Subpart C--Federal Oil

Sec. 206.109 When may I take a transportation allowance in determining value?

(a) Transportation allowances permitted when value is based on gross proceeds. MMS will allow a deduction for the reasonable, actual costs to transport oil from the lease to the point off the lease under Secs. 206.110 or 206.111, as applicable. This paragraph applies when:

(1) You value oil under Sec. 206.102 based on gross proceeds from a sale at a point off the lease, unit, or communitized area where the oil is produced, and

(2) The movement to the sales point is not gathering

(b) Transportation allowances and other adjustments that apply when value is based on index pricing. If you value oil using an index price under Sec. 206.103, MMS will allow a deduction for certain

[[Page 53]]

location/quality adjustments and certain costs associated with transporting oil as provided under Sec. 206.112.

(c) Limits on transportation allowances. (1) Except as provided in paragraph (c)(2) of this section, your transportation allowance may not exceed 50 percent of the value of the oil as determined under Sec. 206.102 or Sec. 206.103 of this subpart. You may not use transportation costs incurred to move a particular volume of production to reduce royalties owed on production for which those costs were not incurred.

(2) You may ask MMS to approve a transportation allowance in excess of the limitation in paragraph (c)(1) of this section. You must demonstrate that the transportation costs incurred were reasonable, actual, and necessary. Your application for exception (using Form MMS-4393, Request to Exceed Regulatory Allowance Limitation) must contain all relevant and supporting documentation necessary for MMS to make a determination. You may never reduce the royalty value of any production to zero.

(d) Allocation of transportation costs. You must allocate transportation costs among all products produced and transported as provided in Secs. 206.110 and 206.111. You must express transportation allowances for oil as dollars per barrel.

(e) Liability for additional payments. If MMS determines that you took an excessive transportation allowance, then you must pay any additional royalties due, plus interest under 30 CFR 218.54. You also could be entitled to a credit with interest under applicable rules if you understated your transportation allowance. If you take a deduction for transportation on Form MMS-2014 by improperly netting the allowance

against the sales value of the oil instead of reporting the allowance as a separate entry, MMS may assess you an amount under Sec. 206.116.

[Code of Federal Regulations]
[Title 30, Volume 2]
[Revised as of July 1, 2001]
From the U.S. Government Printing Office via GPO Access
[CITE: 30CFR206.156]

[Page 68-69]

TITLE 30--MINERAL RESOURCES

CHAPTER II--MINERALS MANAGEMENT SERVICE,
DEPARTMENT OF THE INTERIOR

PART 206--PRODUCT VALUATION--Table of Contents

Subpart D--Federal Gas

Sec. 206.156 Transportation allowances--general.

(a) Where the value of gas has been determined pursuant to Sec. 206.152 or Sec. 206.153 of this subpart at a point (e.g., sales point or point of value determination) off the lease, MMS shall allow a deduction for the reasonable actual costs incurred by the lessee to transport unprocessed gas, residue gas, and gas plant products from a lease to a point off the lease including, if appropriate, transportation from the lease to a gas processing plant off the lease and from the plant to a point away from the plant.

(b) Transportation costs must be allocated among all products produced and transported as provided in Sec. 206.157.

(c)(1) Except as provided in paragraph (c)(3) of this section, for unprocessed gas valued in accordance with Sec. 206.152 of this subpart, the transportation allowance deduction on the basis of a selling arrangement shall not exceed 50 percent of the value of the unprocessed gas determined in accordance with Sec. 206.152 of this subpart.

(2) Except as provided in paragraph (c)(3) of this section, for gas production valued in accordance with Sec. 206.153 of this subpart the transportation allowance deduction on the basis of a selling

[[Page 69]]

arrangement shall not exceed 50 percent of the value of the residue gas or gas plant product determined in accordance with Sec. 206.153 of this subpart. For purposes of this section, natural gas liquids shall be considered one product.

(3) Upon request of a lessee, MMS may approve a transportation allowance deduction in excess of the limitations prescribed by paragraphs (c)(1) and (c)(2) of this section. The lessee must demonstrate that the transportation costs incurred in excess of the limitations prescribed in paragraphs (c)(1) and (c)(2) of this section were reasonable, actual, and necessary. An application for exception (using Form MMS-4393, Request to Exceed Regulatory Allowance Limitation) shall contain all relevant and supporting documentation necessary for MMS to make a determination. Under no circumstances shall the value for royalty purposes under any selling arrangement be reduced to zero.

(d) If, after a review and/or audit, MMS determines that a lessee has improperly determined a transportation allowance authorized by this subpart, then the lessee shall pay any additional royalties, plus interest, determined in accordance with 30 CFR 218.54, or shall be entitled to a credit, without interest. If the lessee takes a deduction for transportation on the Form MMS-2014 by improperly netting the

allowance against the sales value of the unprocessed gas, residue gas, and gas plant products instead of reporting the allowance as a separate line item, he may be assessed an additional amount under 206.157(d).

[53 FR 1272, Jan. 15, 1988, as amended at 61 FR 5465, Feb. 12, 1996; 64 FR 43288, Aug. 10, 1999]

[Code of Federal Regulations]
[Title 30, Volume 2]
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[Page 90-91]

TITLE 30--MINERAL RESOURCES

CHAPTER II--MINERALS MANAGEMENT SERVICE, DEPARTMENT OF THE INTERIOR

PART 206--PRODUCT VALUATION--Table of Contents

Subpart E--Indian Gas

Sec. 206.177 What general requirements regarding transportation allowances apply to

(a) When you value gas under Sec. 206.174 at a point off the lease, unit, or communitized area (for example, sales

[[Page 91]]

point or point of value determination), you may deduct from value a transportation allowance to reflect the value, for royalty purposes, at the lease, unit, or communitized area. The allowance is based on the reasonable actual costs you incurred to transport unprocessed gas, residue gas, or gas plant products from a lease to a point off the lease, unit, or communitized area. This would include, if appropriate, transportation from the lease to a gas processing plant off the lease, unit, or communitized area and from the plant to a point away from the plant. You may not deduct any allowance for gathering costs.

(b) You must allocate transportation costs among all products you produce and transport as provided in Sec. 206.178.

(c)(1) Except as provided in paragraphs (c)(2) and (3) of this section, your transportation allowance deduction for each selling arrangement may not exceed 50 percent of the value of the unprocessed gas, residue gas, or gas plant product. For purposes of this section, natural gas liquids are considered one product.

(2) If you ask MMS, MMS may approve a transportation allowance deduction in excess of the limitations in paragraph (c)(1) of this section. To receive this approval, you must demonstrate that the transportation costs incurred in excess of the limitations in paragraph (c)(1) of this section were reasonable, actual, and necessary. Under no circumstances may an allowance reduce the value for royalty purposes under any selling arrangement to zero.

(3) Your application for exception (using Form MMS-4393, Request to Exceed Regulatory Allowance Limitation) must contain all relevant and supporting documentation necessary for MMS to make a determination.

(d) If MMS conducts a review or audit and determines that you have improperly determined a transportation allowance authorized by this subpart, then you will be required to pay any additional royalties, plus interest determined in accordance with 30 CFR 218.54. Alternatively, you may be entitled to a credit, but you will not receive any interest on your overpayment.